

**Controls Over the Telecommunications  
Programs Continue to Need Improvement**

**September 2002**

**Reference Number: 2002-20-198**

**This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

September 26, 2002

MEMORANDUM FOR DEPUTY COMMISSIONER FOR MODERNIZATION & CHIEF  
INFORMATION OFFICER

*Michael R. Phillips*

FROM: Michael R. Phillips  
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Controls Over the Telecommunications  
Programs Continue to Need Improvement (Audit # 200120040)

This report presents the results of our review of controls over telecommunications costs. The overall objective of this review was to evaluate the Internal Revenue Service's (IRS) management of local telephone service costs. This review is the last in a series of audits we conducted in the past 2 fiscal years to assess telecommunications program controls. This report also provides an overall assessment of the effectiveness of the IRS' controls over its telecommunications program.

The telecommunications budget for Fiscal Year (FY) 2002 totaled \$281 million. The Telecommunications Division is responsible for purchasing, operating, and maintaining telephones, voice mail, pagers, cellular telephones, and data networks for more than 100,000 IRS employees in over 750 locations.

In summary, in 1994, the IRS reported and began tracking the internal controls over its telecommunications costs as a material weakness.<sup>1</sup> IRS management has implemented several corrective actions to improve controls in the telecommunications programs, such as blocking 900 number calls, routing outgoing calls at the least cost, restricting telephone services based on specific telephone units and users, implementing the monthly Billing Invoices Resolution reconciliation with the Treasury Communications System (TCS) contractor, and implementing the Enterprise Help Desk. The IRS is currently implementing the Telecommunications Asset Tool (TAT) to be used to address

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<sup>1</sup> A material weakness is a control deficiency that the agency head determines to be significant enough to be reported outside the agency (i.e., included in the annual Federal Managers' Financial Integrity Act of 1982 [FMFIA], 31 U.S.C. §§ 1105, 1113, and 3512 (1994 & Supp. IV 1998) report to the President and the Congress).

many of the reported control weaknesses. The TAT is scheduled to be fully operational by November 2002.

The Treasury Inspector General for Tax Administration, formerly the IRS' Internal Audit function, conducted 7 audits over the last 9 years reviewing controls within the Telecommunications Division, including the long distance, data network, calling card, cellular telephone, and local telephone service programs. While management initiated corrective actions after each audit, our analysis of the results of these prior audit reports found that standardized policies and procedures were not issued to clearly define the roles and responsibilities for effectively managing and operating the various telecommunications programs and that management actions were not adequate to ensure that corrective actions are timely and effectively implemented. For example, in response to 1 audit report, management committed to conducting annual inventories of cellular telephones, but no inventories were conducted in the following 7 years. In response to another audit report, management agreed to implement a system to improve controls over the monitoring and use of the FTS telephone services; however, despite the development of two different computer systems, the controls have still not improved. In addition, the corrective actions to address the FMFIA material weaknesses do not include actions to address financial control weaknesses in all telecommunications programs.

The control weaknesses identified in the prior audit reports may have cost the IRS approximately \$15 million in questionable and unnecessary charges for telecommunications equipment and services. Since the audit work identifying the control weaknesses was conducted at only a few IRS locations and was based on samples of billing invoices, the actual amount of questionable and unnecessary charges could be higher. In a separate independent review, a contractor's analysis of the IRS' information technology infrastructure program reported in February 2002 that the IRS could realize additional savings up to approximately \$59 million over several years by improving the voice and data network management program and moving to a system of usage-based accounting.

In the current audit, we reviewed the local telephone services monthly billing invoice review process for the \$40 million program and found that the IRS was not adequately reviewing the invoices. Telecommunications Division management has not issued standardized policies and procedures for reviewing monthly billing invoices for local telephone services and has not provided oversight to the local offices to ensure that the reviews are consistently conducted.

The Deputy Commissioner for Modernization & Chief Information Officer should ensure that standardized policies and procedures for local telephone billing verification are developed and implemented when the TAT Enhanced Financial Module is implemented; Telecommunications Division management take appropriate actions to timely and effectively complete the open corrective actions and develop processes to assure that the corrective actions are institutionalized to prevent recurrence of the identified control weaknesses; and the corrective actions for the TCS invoice verification are included in

the corrective actions being tracked in the FMFIA telecommunications costs control material weakness.

Management's Response: IRS management agreed with the recommendations presented in this report. Planned corrective actions include implementing standardized policies and procedures for local telephone billing verification and implementing processes to ensure that all corrective actions are timely completed, effective, and institutionalized. IRS management will also include the corrective actions for the TCS invoice verification as a part of the FMFIA material weakness.

Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Scott E. Wilson, Assistant Inspector General for Audit (Information Systems Programs), at (202) 622-8510.

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### Background

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One of the Internal Revenue Service's (IRS) major strategies contained in the *IRS Strategic Plan Fiscal Years (FY) 2000 – 2005* is to provide high-quality, efficient, and responsive information services. To accomplish this strategy, the IRS plans to improve its ability to manage telecommunications services. The FY 2002-2003 Modernization and Information Technology Services (MITS) Program Plan states that the Telecommunications Division's mission is to provide the most efficient and cost-effective telecommunications service delivery to all customer segments. The Telecommunications Division is responsible for purchasing, operating, and maintaining telephones, voice mail, pagers, cellular telephones, and data networks for more than 100,000 IRS employees in over 750 locations. The Telecommunications Division's budget for FY 2002 totaled \$281 million.

Over the last 9 years, the Treasury Inspector General for Tax Administration (TIGTA), formerly the IRS' Internal Audit function, conducted 7 audits reviewing controls within the Telecommunications Division, including the long distance, data network, calling card, cellular telephone, and local telephone service programs.

Audit work was conducted at the National Headquarters in New Carrollton, Maryland; Memphis, Atlanta, and Cincinnati IRS Campuses; and District of Columbia Metro, Northeast, and Southeast Area Offices during the period March through June 2002. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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### Management Actions Have Improved Some Controls in the Telecommunications Programs

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The IRS began work to improve controls and accountability in the Telecommunications Division based, in part, on our prior audit findings reported almost 9 years ago. Since that time, IRS management has implemented several corrective actions to improve controls in the telecommunications programs. For example:

- In the local telephone service program, management installed new systems to block 900 number calls, route outgoing calls over the telephone lines that will

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result in the least cost, and restrict the type of telephone services made available based on the specific telephone units and users.

- In the Treasury Communications System (TCS) program, management implemented the monthly Billing Invoices Resolution reconciliation with the TCS contractor to improve controls over the process for verifying the TCS invoices.
- In the network management program, management developed and implemented the Enterprise Help Desk to improve network problem reporting. Additional actions initiated include replacing older Wide Area Network (WAN) circuits with current technology and redesigning the WAN configuration to increase capacity and improve network management, problem resolution, and performance.

In addition, the IRS is currently implementing the Telecommunications Asset Tool (TAT) to be used to address many of the reported control weaknesses. The TAT is scheduled to be fully operational by November 2002, when the Enhanced Financial Module is implemented. The Enhanced Financial Module is intended to improve the billing review process for local telephone services by automating the invoice validation process, centrally capturing service and costs data, allowing on-line validation and certification of local telephone costs, and providing invoice analysis.

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### Many Telecommunications Programs Have Similar Control Weaknesses That Were Not Timely and Effectively Resolved

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The Department of the Treasury Directive (TD) 40-04, *Treasury Internal (Management) Control Program*; Office of Management and Budget (OMB) Circular A-123, *Management Accountability and Control*; and the Federal Managers Financial Integrity Act (FMFIA)<sup>1</sup> provide guidance on the internal (management) controls required to reasonably ensure that programs and resources are protected from waste, fraud, and mismanagement. In addition, OMB Circular A-123 holds agency managers responsible for taking timely and effective action to correct deficiencies.

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<sup>1</sup> Federal Managers Financial Integrity Act of 1982, 31 U.S.C. §§ 1105, 1113, and 3512 (1994 & Supp. IV 1998).

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Management also has a responsibility to identify and implement corrective actions regarding agreed to Inspector General audit recommendations within 1 year to the extent practicable.

The IRS' Management Controls Accountability Program (MCAP) defines management controls as the programs, policies, and procedures for ensuring that mission and program objectives are accomplished and resources are adequately safeguarded. The MCAP also assigns IRS managers stewardship and accountability for IRS operations and prompt correction of management control deficiencies.

Seven audits over the last 9 years reviewed various aspects of the Telecommunications Division's controls. While management initiated corrective actions after each audit, our analysis of the results of these prior audit reports found that 1) standardized policies and procedures were not issued to clearly define the roles and responsibilities for effectively managing and operating the various telecommunications programs and 2) management actions were not adequate to ensure that corrective actions are timely and effectively implemented. In addition, corrective actions to address FMFIA material weaknesses<sup>2</sup> did not include actions to address financial control weaknesses in all telecommunications programs.

The control weaknesses identified in the prior audit reports may have cost the IRS approximately \$15 million in questionable and unnecessary charges for telecommunications equipment and services. Since the audit work identifying the control weaknesses was performed at only a few IRS locations and was based on samples of billing invoices, the actual amount of questionable and unnecessary charges could be higher. See Appendix V for a listing of the prior reports, reported control weaknesses, and potential cost savings.

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<sup>2</sup> A material weakness is a control deficiency that the agency head determines to be significant enough to be reported outside the agency (i.e., included in the annual FMFIA report to the President and the Congress).



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### **Standardized policies and procedures were not issued to clearly define the roles and responsibilities for effectively managing and operating the various telecommunications programs**

In five of the seven prior audit reports, we reported that the IRS did not issue standardized policies and procedures. Specifically, the IRS did not issue policies and procedures for 1) reviewing the monthly invoices for telecommunications equipment and services to identify questionable and unnecessary charges; 2) periodically reviewing telecommunications inventories to validate acquisitions and dispositions of assets; and 3) periodically reviewing the acquisition and usage of telecommunications resources, equipment, and services to identify opportunities for more efficient use of the IRS' data network resources.

Our audit report, *Improvements Are Needed in the Telecommunications Data Network Management Program* (Reference Number 2002-20-026, dated November 2001), reported that ineffective network capacity planning and traffic analyses may have cost the IRS approximately \$1.9 million in installation costs for excess circuitry and that duplicate network monitoring activities could cost the IRS approximately \$4.8 million over 5 years. In July 2002, the IRS reduced annual funding for existing contracts by \$2.3 million because it transferred network monitoring responsibilities to the TCS contractor. This action will result in cost savings of approximately \$11.5 million over 5 years (see Appendix IV).

In February 2002, an independent contractor's analysis of the IRS' information technology infrastructure program subsequently confirmed our audit results. The contractor reported that the IRS could realize additional savings totaling up to approximately \$59 million over several years by 1) eliminating unnecessary network capacity and redundancy; 2) negotiating with the Department of the Treasury to reduce the administrative costs for providing the WAN; 3) eliminating excess costs for unused telephones and toll-free numbers; and 4) moving to a system of usage-based accounting. The total cost savings presented in

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the contractor's report were not allocated to the specific telecommunications programs.

We also found no standardized policies and procedures in the current audit of the IRS' management of the local telephone services program. We reviewed the local telephone services monthly billing invoice review process and found that the IRS was not adequately reviewing the invoices. The Telecommunications Division provides no guidance or management oversight to the local offices for reviewing monthly billing invoices for local telephone services. The review procedures are developed by the local telecommunications personnel and vary significantly among offices, ranging from no documented procedures to in-depth procedures.

Reviewing the local telephone bills is an extremely labor-intensive manual process and is performed by only one Telecommunications Division employee in most offices. While each of the offices that we visited perform monthly telephone billing reviews, the reviews do not include an in-depth analysis of the invoices to identify unauthorized charges and verify that the IRS is not being charged for telephone services at vacated offices. For example, the monthly billing invoice reviews performed in 1 of the local offices had not identified more than \$200,000 in overcharges for services provided by the local carrier over a period of 6 years. The overcharge was subsequently identified during an account review by the local carrier and a credit was applied to the IRS' account. The FY 2002 Telecommunications Budget includes nearly \$40 million for local telephone services that could be subject to overcharges.

Standardized policies and procedures were not developed and implemented because of the Telecommunications Division's decentralized work environment, unclear program accountability, inadequate resources, and other work priorities. Without standardized procedures for effectively managing and operating the various telecommunications programs, the IRS has no assurance that its telecommunications costs are accurate and necessary.

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### **Management actions were not adequate to ensure that corrective actions are timely and effectively implemented**

For almost a decade, IRS management has been attempting to improve management controls and accountability in the Telecommunications Division. However, management control weaknesses continue to exist throughout the Telecommunications Division because the corrective actions taken in response to our recommendations or the IRS-identified FMFIA material weaknesses were delayed, were one-time actions instead of permanent process improvements, or were not effective in resolving the control weakness.

The IRS has continually experienced significant delays in completing the planned corrective actions. The following table outlines the corrective action completion time periods.

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**Table 1: Corrective Action Completion Time Periods**

Corrective Actions Resolution Time Periods Based on Original Due Date	Corrective Actions Tracked by the FMFIA	Additional Corrective Actions Tracked by the ITCS <sup>3</sup>	Total
Timely – completed by the original due date	15	30	45 (46%)
Completed less than 6 months after the original due date	2	1	3 (3%)
Completed 6 to 12 months after the original due date	4	4	8 (8%)
Completed 12 to 24 months after the original due date	0	2	2 (2%)
Completed greater than 24 months after the original due date	2	0	2 (2%)
Open – Future Original Due Date	0	9	9 (9%)
Open – Extended Original Due Date (from 1 month to almost 9 years)	4	24	28 (29%)
<b>Totals</b>	<b>27</b>	<b>70</b>	<b>97 (100%)<sup>4</sup></b>

*Source: IRS ITCS A-16 Reports (as of May 14, 2002), Material Weakness IRS 2A-94-3, Internal Controls Over Telecommunications Costs (updated June 2002), and Management's Response to TIGTA Report: Verification of the Treasury Communications System Invoices Should Be Improved (Reference Number 2002-20-073, dated April 2002).*

Based on the above table, only 46 percent of the IRS' planned corrective actions were timely completed, 15 percent of the corrective actions were completed after the original due date, and 38 percent of the corrective actions remain open. One of the corrective actions was completed 8 years after the original due date. In addition, IRS management has extended the original due date for 28 of the corrective actions, 7 of which have been open from 3 to 9 years.

<sup>3</sup> The Treasury's Inventory, Tracking and Closure System (ITCS) is the system used by the Chief Financial Officer's Office of Management Controls in tracking Significant Control Deficiency and Material Weakness Corrective Action Plans for periodic reporting to the Department of the Treasury.

<sup>4</sup> Rounded up by 1 to total 100 percent.

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Some of the corrective actions taken to address control weaknesses were performed as one-time actions instead of permanent process improvements. For example, the IRS inventoried all calling cards and cellular telephones in July 1994, in response to recommendations made in the audit report, *Review of the Service's Controls Over Voice Telecommunications Charges* (Reference Number 034908, dated September 1993), and committed to conducting annual inventories. However, the IRS completed only 1 inventory of calling cards in the following 6 years and no inventory of cellular telephones in the following 7 years. IRS management advised that they created a current calling card inventory when the IRS changed Federal Telecommunications System (FTS) vendors in Calendar Year 2000.

In addition, IRS management agreed to develop and implement a system to improve controls over the monitoring and use of the FTS telephone services. However, the Billing Analysis Reporting Tool (BART) system was never completely and effectively implemented because the National Treasury Employees Union did not approve the revised review criteria. The IRS initiated development of a subsequent system, Sprint Interactive Desktop Reporter (SPIDR), because of the change in the FTS vendor. However, the SPIDR was never fully implemented because of changes in functional requirements. As a result, effective cost controls were never implemented.

The IRS is currently implementing another new system, the TAT, to address the control weaknesses. However, management has no assurance that the TAT will effectively resolve the existing telecommunications management and cost control issues until it is fully implemented with effective policies and procedures.

The ineffective program management has been facilitated by numerous reorganizations and changes in executive management within the Telecommunications Division. Without the timely and effective implementation of corrective actions, the IRS has no assurance that the telecommunications resources are effectively used.

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### **Corrective actions to address FMFIA material weaknesses do not include actions to address financial control weaknesses in all telecommunications programs**

In 1994, the IRS reported the internal controls over its telecommunications costs as a material weakness and began tracking corrective actions. Recently, the IRS expanded the FMFIA corrective actions plan to include issues and corrective actions addressing control weaknesses in the local telephone services program. The open corrective actions include items such as:

- Implement the TAT system nationwide to detect and identify potential fraud, waste, and abuse charges and to monitor employee telephone usage.
- Implement an e-billing module to electronically receive bills that will be used to validate and certify local telephone carrier bills.
- Implement a cellular phone inventory compilation module.

Although the IRS plans to complete these corrective actions and close this material weakness by March 2003, corrective actions addressing control weaknesses in the TCS invoice review process are still not reported and tracked under the FMFIA because IRS management has not classified the reported weaknesses as material weaknesses.

Without adequate controls to ensure that management develops and tracks corrective actions addressing control weaknesses in all Telecommunications Division program areas, the IRS has no assurance that its FY 2002 \$281 million telecommunications budget is adequately safeguarded against improper billings, unauthorized use, or misappropriation.

### **Recommendations**

The Deputy Commissioner for Modernization & Chief Information Officer should ensure that:

1. Standardized policies and procedures for local telephone billing verification are developed and implemented

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when the TAT Enhanced Financial Module is implemented.

Management's Response: Management will implement standardized policies and procedures for local telephone billing verification by April 2003, when the enhanced financial module of the TAT is implemented.

Management will make these policies and procedures accessible to appropriate personnel through the TAT and the Internal Revenue Manual and will have processes in place to ensure compliance with the bill verification policies.

2. Telecommunications Division management take appropriate actions to timely and effectively complete the open corrective actions and develop processes to assure that the corrective actions are institutionalized to prevent recurrence of the identified control weaknesses.

Management's Response: Management has efforts underway to ensure that all corrective actions are completed timely and to implement validation processes to ensure they are effective and enforced. Management will also review controls to ensure that corrective actions are institutionalized to prevent recurrence of the identified control weaknesses.

3. The corrective actions for the TCS invoice verification are included and tracked as part of the FMFIA telecommunications costs control weakness.

Management's Response: Management will include the corrective actions for TCS invoice verification as part of the FMFIA material weakness for telecommunications costs.

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### Appendix I

#### Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the Internal Revenue Service's (IRS) management of local telephone service costs and to provide an overall assessment of the effectiveness of the IRS' controls over its telecommunications costs. To accomplish this objective, we:

- I. Evaluated the effectiveness of controls over local telephone service costs by interviewing telecommunications personnel in the National Headquarters and selected local offices to identify their roles and responsibilities for managing and monitoring costs and determine whether these roles and responsibilities were clearly defined. In addition, obtained and reviewed policies and procedures for reviewing local telephone bills and obtained a walk-through of the billing review and reconciliation process.
- II. Determined the current status of corrective actions from the audit report, *Review of the Service's Controls Over Voice Telecommunications Charges* (Reference Number 034908, dated September 1993). In addition, determined whether the new system installed by IRS management to address the material weakness in controls over its telecommunications costs for local telephone services effectively blocked 900 number calls, provided least cost routing, and established class of service restrictions. Also reviewed the comprehensive plan developed for managing telecommunications resources.
- III. Reviewed the prior Treasury Inspector General for Tax Administration, formerly the IRS' Internal Audit function, audit reports presented in Appendix V of this report to identify similar cost control issues. Summarized the reported findings and developed an overall assessment of the controls over telecommunications costs. In addition, identified the overall telecommunications problems from the various reviews that indicated a need for program-wide corrective actions by IRS management.
- IV. Interviewed management and staff responsible for the Telecommunications Asset Tool (TAT) implementation to determine the project's development/implementation status. In addition, obtained and reviewed project documents, including the project plan, implementation schedule, and progress reports to identify the features implemented and the scheduled implementation dates for the remaining features.

The documents were reviewed only for implementation status information. A systems development or compliance review of the TAT was not conducted.



**Major Contributors to This Report**

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**Appendix III**

**Report Distribution List**

Commissioner N:C  
Deputy Commissioner N:DC  
Chief, Information Technology Services M:I  
Director, End User Equipment and Services M:I:EU  
Director, Enterprise Networks M:I:EN  
Director, Enterprise Operations M:I:EO  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O  
Office of Management Controls N:CFO:F:M  
Audit Liaisons:  
    Chief, Information Technology Services M:I  
    Director, End User Equipment and Services M:I:EU  
    Director, Enterprise Networks M:I:EN  
    Director, Enterprise Operations M:I:EO  
    Office of Program Oversight and Coordination M:R:PM:PO

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### Appendix IV

#### Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. These benefits will be incorporated into our Semiannual Report to the Congress.

##### Type and Value of Outcome Measure:

- Cost Savings, Recommendations That Funds Be Put to Better Use – Actual; additional \$11.5 million reduced contract personnel costs (see page 2).

##### Methodology Used to Measure the Reported Benefit:

In November 2001, the Treasury Inspector General for Tax Administration reported that the Internal Revenue Service (IRS) could save approximately \$4.8 million in salaries over 5 years by eliminating the overlapping network monitoring and problem reporting duties performed by the Telecommunications Division National Network Management Center contractors and employees of the Martinsburg Computing Center and Tennessee Computing Center. However, this amount was not reported in the Semiannual Report to the Congress for the period October 1, 2001 through March 31, 2002. In July 2002, the IRS reported that a reduction in network monitoring contract personnel resulted in reduced contract funding of \$2.3 million.

Actual cost savings resulting from the reduction in network monitoring contract personnel reported by the IRS for Fiscal Year 2002	\$2,300,000
Estimated 5-year savings (\$2,300,000 * 5 years)	\$11,500,000

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### Appendix V

### Telecommunications Costs Control Issues

The following table includes the seven related audit reports issued by the Treasury Inspector General for Tax Administration (TIGTA), formerly the Internal Revenue Service's (IRS) Internal Audit function, the common telecommunications costs control issues that were reported throughout the various telecommunications programs, and the corrective actions that management agreed to implement to effectively address these weaknesses. The table also includes, where applicable, the estimated \$15 million in actual and potential costs savings that were previously identified by the TIGTA in these reports.

#### Analysis of Related TIGTA Audit Reports and Planned Corrective Actions

	Report Name and Number and Identified Cost Savings	Condition Reported	Corrective Actions	Targeted Completion Date	Actual Completion Date
1.	<i>Review of the Service's Controls Over Voice Telecommunications Charges</i> (Reference Number 034908, dated September 1993)	<p>1. The IRS' cost technology is not adequate to control charges for commercial toll, third party, and Federal Telecommunications System (FTS) long distance calls.</p> <p>2. Management did not develop national guidelines and procedures on the authorized usage and billing verification for cellular telephones, calling cards, commercial long distance, and FTS2000 services.</p> <p>3. Calling card inventory was not accurate.</p> <p>4. The IRS does not have adequate controls over its cellular telephones and services.</p>	<p>1. Install new technology to provide least cost routing, 900 number blocking, and class of service restrictions.</p> <p>2. Develop and update the Internal Revenue Manual (IRM) to include comprehensive policies and procedures for FTS2000, calling card, commercial, and cellular telephone usage and billing verification.</p> <p>3. Conduct an inventory of calling cards and certify the accuracy of inventories annually.</p> <p>3a. Update the IRM to include newly developed calling card inventory guidelines and</p>	<p>1. October 1, 1993</p> <p>2. December 1, 1993</p> <p>3. November 1, 1993</p> <p>3a. December 1, 1993</p>	<p>1. October 1, 1993</p> <p>2. Open - Delayed</p> <p>3. November 1, 2001</p> <p>3a. December 1, 1993</p>

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	Report Name and Number and Identified Cost Savings	Condition Reported	Corrective Actions	Targeted Completion Date	Actual Completion Date
		5. Monthly calling card charges were not adequately reviewed to identify questionable and potentially fraudulent telephone charges.	procedures.  4. Conduct an inventory of cellular telephones and certify accuracy of inventories annually.  5. Require management to perform monthly calling card billing analyses, produce exception reports, and forward results to the National Office.	4. November 1, 1993  5. November 1, 1993	4. Open - Delayed  5. July 15, 1994
2.	<i>Review of the Service's Efforts to Control Off-Net Long Distance Telecommunications Costs</i> (Reference Number 082603, dated March 1998)  <u>Cost Savings:</u> Thousands of dollars each month in questionable and potentially fraudulent telephone charges.	1. Management has not developed procedures and review criteria for using the Billing Analysis Reporting Tool (BART) to identify unauthorized personal use of FTS2000.  2. Roles and responsibilities for BART reviews were not clearly defined.	1. Develop procedures and review criteria for using the BART to identify unauthorized personal use of FTS2000.  2. Develop detailed procedures clearly defining the roles and responsibilities for conducting required BART reviews.  2a. Management will require quarterly BART reviews.  2b. Ensure consistent implementation nationwide.	1. June 1, 1998  2. June 1, 1998  2a. June 1, 1998  2b. July 1, 1998	1. December 29, 1998  2. June 1, 1998  2a. February 17, 1998  2b. January 1, 1999
3.	<i>Cost Savings Can Be Achieved Through Improved Monitoring of the Treasury Communications System Contract</i> (Reference Number 2000-10-028, dated February 2000)	1. The IRS is not properly verifying invoices for the Treasury Communications System (TCS) contract to ensure that all costs are appropriate.	1. Implement a process for performing detailed analysis of the monthly TCS invoices.  2. Implement a monthly Billing Invoices Resolution	1. June 1, 2000  2. April 1, 2000	1. June 1, 2000  2. October 1, 1999

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	Report Name and Number and Identified Cost Savings	Condition Reported	Corrective Actions	Targeted Completion Date	Actual Completion Date
	<u>Cost Savings:</u> Approximately \$6.3 million over 5 years in contract costs for circuits and equipment that could not be identified or had been removed from service.		reconciliation with the TCS to ensure that the IRS is receiving the appropriate credits.		
4.	<i>Monitoring of Long Distance and Cellular Telephone Costs Continues To Need Improvement</i> (Reference Number 2001-20-171, dated September 2001)  <u>Cost Savings:</u> Approximately \$1.1 million in questionable telephone call charges for Calendar Year 2000.	1. The IRS does not conduct regular reviews of charges for long distance telephone calls to assure accuracy and reasonableness.  2. The IRS did not implement policies and procedures for issuing cellular telephones, maintaining cellular telephone inventories, and reviewing monthly usage charges for cellular telephones.	1. Implement guidelines and procedures for reviewing long distance telephone charges using approved criteria.  1a. Implement the Telecommunications Asset Tool (TAT) Release 4 with procedures for verifying long distance billing.  2. Conduct annual inventory of calling cards.  2a. Conduct annual inventory of cellular telephones.  2b. Implement national guidelines and procedures for cellular telephone issuance, usage, and monitoring.	1. December 1, 2001  1a. March 1, 2002  2. November 1, 1993  2a. November 1, 1993  2b. December 1, 1993	1. Open - Delayed  1a. May 2, 2002  2. November 1, 2001  2a. Open - Delayed  2b. Open - Delayed
5.	<i>Improvements Are Needed in the Telecommunications Data Network Management Program</i> (Reference Number 2002-20-026, dated November 2001)	1. The IRS has not implemented nationwide policies and procedures defining network monitoring responsibilities, established problem	1. Develop and implement clear guidelines defining roles and responsibilities for network management.	1. March 1, 2002	1. Open - Delayed

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	Report Name and Number and Identified Cost Savings	Condition Reported	Corrective Actions	Targeted Completion Date	Actual Completion Date
	<u>Cost Savings:</u> Approximately \$4.8 million over 5 years in duplicate network monitoring activities, and \$1.9 million in installation costs for excess circuitry.	resolution timeliness standards, and documented traffic and performance analyses.			
6.	<i>Management Advisory Report: Review of Longstanding Concerns with the Treasury Communications System Program</i> (Reference Number 2001-20-109, dated July 2001)	1. Control weaknesses still exist in the TCS billing and review process.	1. This Management Advisory Report did not require a response by IRS management. Therefore, no corrective actions were identified.	1. N/A	1. N/A
7.	<i>Verification of the Treasury Communications System Invoices Should Be Improved</i> (Reference Number 2002-20-073, dated April 2002)  <u>Cost Savings:</u> Approximately \$66,375 in costs for circuits and equipment that had been removed from service, and \$982,806 in maintenance contract fees for selected equipment.	1. The IRS did not issue policies and procedures to ensure that charges for all offices on TCS invoices are consistently verified, reported, and reconciled or that the IRS received the credits agreed to by the contract.	1a. Create a financial management unit responsible for validating each invoice monthly.  1b. Centralize resources responsible for the TCS ordering and invoice validation processes within a single business unit.	1a. July 1, 2002  1b. October 1, 2002	1a. Open - Future Date  1b. Open - Future Date

Source: TIGTA, formerly the IRS' Internal Audit function, Prior Audit Reports (referenced in table), IRS Inventory Tracking and Closure System A-16 Reports (as of May 14, 2002) and Material Weakness IRS 2A-94-3, Internal Controls Over Telecommunications Costs (updated June 2002).

## Controls Over the Telecommunications Programs Continue to Need Improvement

Appendix VI

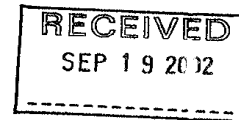
### Management's Response to the Draft Report



CHIEF  
INFORMATION TECHNOLOGY SERVICES

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

SEP 19 2002



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX  
ADMINISTRATION

FROM:   
Tony Zimmerman  
Chief, Information Technology Services

SUBJECT: Response to Draft Audit Report – Controls Over the  
Telecommunications Program Continue to Need Improvement  
(Audit No. 200120040)

The Modernization, Information Technology and Security (MITS) Services organization is committed to protecting our resources and supporting the mission of the IRS. Telecommunications services are vital to meeting our customers' goals. We make every effort to manage our telecommunications programs efficiently to protect these resources.

Our goal has been to improve telecommunications procedures using best industry practices. We include our current guidelines for acquiring, managing, and using telecommunications services in the Internal Revenue Manual (IRM), making them available through automated systems such as the IRS wireless and phone card web sites. We will ensure they remain current and that employees throughout the IRS follow them.

Among our accomplishments:

- Since 1993, we have had an active fraud, waste, and abuse program for material weaknesses in the Federal Telecommunications System (FTS) program.
- We conducted calling card inventories when we changed service providers; implemented procedures for managing and tracking calling cards; and centralized responsibility for the program at the Detroit Computing Center.
- Recently, we implemented an automated process (wireless web page) that compiles a national cell phone database. We will use it to order equipment, automatically update the inventory, and support annual inventory verifications. Management will use the database to detect potential fraud, waste, and abuse of cell phone service based on predetermined criteria. We posted our policies on cellular phone use, issuance, and accountability on the wireless web page.



## **Controls Over the Telecommunications Programs Continue to Need Improvement**

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2

- We implemented automated tools to streamline procedures for managing local and long distance telecommunications services such as calling cards, cellular telephones, and long distance telephone access. We are implementing procedures to review long distance call patterns and verify costs using the Telecommunications Asset Tool (TAT). TAT will contain a baseline inventory to support our monthly review of billing exceptions. We are also enhancing TAT to receive, validate, and certify local telephone bills.
- Additionally, we continue to make progress in network capacity planning and traffic analyses for data communications. To establish a balance between seasonal and off-season capacity, we installed additional data collection probes in campuses and territorial offices to provide real time network statistics, generated circuit use reports, and installed other network monitoring tools. New leadership in engineering and architectural design will also assist in network capacity planning in the future.
- We are also working with the Department of the Treasury to reduce costs of the Wide Area Network (WAN) infrastructure. We are investigating the possibility of flat fee maintenance, deleting after-hours maintenance premium charges, and streamlining the invoice validation process.

To strengthen our programs, we continue to make improvements including those that address TIGTA's recommendations. I have included additional details in my attached management response. If you have any questions, please call me at (202) 622-0260, or Thomas Mulchay, Manager, Program Oversight and Coordination Office, at (202) 283-6063.

Attachment

## 1

## 2

**Response to Draft Audit Report - Controls Over the Telecommunications Program**  
**Continue to Need Improvement (Audit No. 200120040)**

The Deputy Commissioner for Modernization & Chief Information Officer should ensure that the Enterprise Networks management take appropriate actions to timely and effectively complete the open corrective actions and develop processes to assure that the corrective actions are institutionalized to prevent recurrence of the identified control weaknesses.

Numerous reorganizations and executive and staff changes in the programs, which are under the Enterprise Networks organization, resulted in ineffective program management.

The Enterprise Networks organization has efforts underway to ensure all corrective actions are completed timely and to implement validation processes to ensure they are effective and enforced. Management is committed to ensuring we institutionalize the corrective actions to prevent recurrence of the identified control weaknesses.

**Completed:** **Proposed:** November 1, 2002

Deputy Commissioner for Modernization & Chief Information Officer M  
Chief, Information Technology Services M:I  
Director, Enterprise Networks M:I:T

The Director, Enterprise Networks, will review controls to ensure corrective actions are effective, timely, and institutionalized. The Director will provide feedback and support as needed.

## **Controls Over the Telecommunications Programs Continue to Need Improvement**

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### **Attachment**

#### **Response to Draft Audit Report - Controls Over the Telecommunications Program Continue to Need Improvement (Audit No. 200120040)**

##### **Recommendation #3**

The Deputy Commissioner for Modernization & Chief Information Officer should ensure that the corrective actions for the TCS invoice verification are included and tracked as part of the FMFIA telecommunication cost control weakness.

##### **Assessment of Cause**

The Enterprise Networks organization has reported on corrective actions for Treasury Communication System (TCS) invoice verification as part of the Treasury's Inventory Tracking and Closure System (ITC), but not as part of the Federal Managers Financial Integrity Act (FMFIA) material weakness.

##### **Corrective Action #3**

The Enterprise Network organization will include the corrective actions for TCS invoice verification as part of the FMFIA material weakness for telecommunications costs.

##### **Implementation Date of Corrective Action #3**

**Completed:** **Proposed:** November 1, 2002

##### **Responsible Official for Corrective Action #3**

Deputy Commissioner for Modernization & Chief Information Officer M  
Chief, Information Technology Services M:I  
Director, Enterprise Networks M:I:T

##### **Monitoring Plan for Corrective Action #3**

MIT Services executives will track the effectiveness of the corrective actions as part of their monthly status updates to the FMFIA material weaknesses.